

## Fact Sheet: Treasury's Efforts on Hurricane Recovery

### **Tax Relief**

Small businesses and employers in the Gulf region receive a variety of tax breaks and incentives under the Gulf Opportunity Zone Act of 2005 (GO Zone legislation). In addition, taxpayers affected by Hurricane Katrina received relief under provisions as part of Katrina Emergency Tax Relief Act of 2005. Highlights include:

- **Expensing for Small Businesses Increased.** Certain small businesses affected by Hurricane Katrina can annually deduct up to \$200,000 in qualifying property expenditures made in the disaster area. This is double the amount otherwise allowed for small business expensing. In addition, the phase-outs for level of investment increased from \$400,000 to \$1 million, allowing more small businesses to use this tax benefit. These provisions apply to property placed in service in the Gulf Opportunity Zone (GO Zone) after August 27, 2005 and before January 1, 2008.
- **Special Bonus Depreciation to Help Businesses Rebuild.** Businesses of all sizes affected by Hurricane Katrina can take a special first year depreciation deduction for qualified property placed in service after August 27, 2005, and before January 1, 2008. The special deduction is equal to 50 percent of the property's depreciable basis.
- **Deduction for Demolition and Clean-up Costs.** Taxpayers may choose to take a deduction for 50 percent of any qualified GO Zone clean-up costs that would otherwise be included in the basis of property. The deduction is allowed for the tax year in which the taxpayer paid or incurred the costs. Qualified GO Zone clean-up costs means amounts paid or incurred after August 27, 2005, and before January 1, 2008.
- **Net Operating Loss Carryback Extended.** The carryback period is extended from two to five years for net operating losses attributable to Hurricane Katrina. This provision will allow some businesses affected by the hurricane to obtain a refund of taxes paid in earlier tax years. Special carryback rules are also provided for certain timber losses and public utility casualty losses.
- **Work Opportunity Tax Credit for Hurricane Katrina Employees.** The Work Opportunity Tax Credit provides businesses with an incentive to hire individuals from groups that have a particularly high unemployment rate or other special employment needs. The credit is expanded to include persons affected by Hurricane Katrina as a targeted group of employees.
- **Income Exclusion and Employer Credit for Housing Employees In the Region Affected by Hurricane Katrina.** Up to \$600 per month is excluded from an employee's income for employer-provided housing in the region affected by Hurricane Katrina. Employers are also entitled to a significant tax credit for providing such housing.
- **Casualty Loss Relief.** Taxpayers who suffered casualty as the result of the recent hurricanes were provided relief from certain loss limitations.

In addition to the legislative provisions described above, the Treasury Department and IRS took a number of steps to provide administrative relief:

- **FEMA Assistance.** The Internal Revenue Service (IRS) assisted the Federal Emergency Management Agency (FEMA) in answering telephone calls from those affected by Hurricane Katrina. IRS assigned nearly 5,000 employees to assist with the registration effort. They answered approximately 950,000 registration calls for FEMA and filled orders for over 291,000 Disaster Relief Kits. To date, they have answered more than 100,000 calls on the special IRS toll-free line, which continues to remain in service, for affected taxpayers.
- **Filing and Payment Deadlines.** IRS extended deadlines for filing and tax payments to February 28, 2006, for those affected by Hurricane Katrina.
- **Leave-Based Donation Programs.** Treasury and IRS announced special relief intended to support leave-based donation programs to aid those who have suffered from the extraordinary destruction caused by Hurricane Katrina. This action facilitated employers adopting programs under which employees can forego vacation, sick or personal leave, and in turn their employers would make cash contributions to charitable organizations involved in relief efforts.
- **Fee Waivers.** IRS waived the usual fees and expedited requests for copies of previously filed tax returns for people who needed these records to apply for benefits or to file amended returns claiming disaster-related losses.
- **Taxpayer Assistance.** IRS launched approximately 75 on-site assistance operations in partnership with FEMA. These sites were located throughout Alabama and Texas.
- **Diesel Fuel Shortage Relief.** In response to shortages of diesel fuel, IRS announced that it would not impose a tax penalty when dyed diesel fuel is sold for use or used on the highway, making millions of additional gallons of diesel fuel available for highway use.
- **Aviation-Grade Kerosene.** In order to alleviate local fuel shortages caused by Hurricane Katrina, IRS permitted vehicles registered for highway use to remove aviation-grade kerosene (aviation fuel) from certain airports without violating the favorable excise tax treatment to which those airport fueling terminals are currently entitled.
- **Tax-Exempt Bond Relief.** IRS provided issuers of tax exempt bonds affected by Hurricane Katrina with additional time to file certain information returns and arbitrage rebate returns. Affected issuers who had an original filing or payment deadline between August 29, 2005 and December 31, 2005 had until January 3, 2006 to file the return and make any payment due with the return.
- **Low-Income Housing Credit Relief.** IRS waived the low-income housing tax credit rules that prohibit owners of low-income housing from providing housing to those affected by

Hurricane Katrina who do not qualify as low-income. The action will expand the availability of housing for those affected and their families.

- **Pension Funding Deadlines.** IRS extended the pension funding deadline for employers in the Katrina affected region to October 31, 2005.
- **Tax-Exempt Applications.** IRS expedited the review and approval process for new organizations seeking tax-exempt status in order to provide relief for those affected by Hurricane Katrina.
- **Stakeholder Partnerships.** IRS partnered with the American Institute of Certified Public Accountants (AIPCA), National Association of Enrolled Agents (NAEA), and the American Association of Attorney-Certified Public Accountants (AAA-CPA) to provide on-site assistance as well as general outreach/education to taxpayers impacted by the disaster.
- **Loans and Hardship Withdrawals from Plans.** IRS and Treasury announced relief for 401(k) plans and similar plans, such as those under section 403(b), facilitating loans and hardship distributions from these plans to those affected by Hurricane Katrina.

#### **New Markets Tax Credit Program**

- The GO Zone legislation provided an additional \$1 billion in New Markets Tax Credit (NMTC) authority through 2007 to Community Development Entities with a significant mission of recovery and redevelopment of the GO Zone.
- Treasury and the Community Development Financial Institution (CDFI) Fund took action to encourage investment in areas affected by Hurricane Katrina by implementing changes to the NMTC program. The CDFI Fund (1) provided NMTC Program allocation application deadline extensions, on a case-by-case basis, to organizations whose principal place of business is located in counties where FEMA issued a 'major disaster declaration' as of July 15, 2005 and (2) modified the NMTC Program allocation application so that additional consideration will be given to organizations that commit to target their investment activities to counties where FEMA issued a 'major disaster declaration' as of July 15, 2005.

#### **Federal Payments**

- Treasury worked with the Social Security Administration and other benefit agencies to ensure the timely delivery of check payments and coordinated with U.S. Postal Service to provide pick-up points for those displaced.
- Guidance was issued to financial institutions to facilitate cashing of Treasury checks.
- Treasury assisted commercial financial institutions with setting up mobile banking services at relief centers, starting with Houston and Lackland AFB.

### **Federal Banking Agencies**

- The federal banking agencies encouraged financial institutions to assist institutions in the region and consider all reasonable and prudent actions that could help meet the critical financial needs of their customers and communities.
- The federal banking agencies encouraged, to the extent they are consistent with safe and sound banking practices, actions such as waiving ATM fees for customers and non-customers, increasing ATM daily cash withdrawal limits, easing restrictions on cashing out-of-state and non-customer checks, waiving overdraft fees as a result of paycheck interruption, allowing loan customers to defer or skip some payments, and easing credit card limits and credit terms for new loans.
- The federal banking agencies, in consultation with the Financial Crimes Enforcement Network (FinCEN), also encouraged depository institutions to be reasonable in their approach to verifying the identity of individuals temporarily displaced by Hurricane Katrina, as required in the Customer Identification Program under the Bank Secrecy Act.
- Treasury and the Office of Thrift Supervision (OTS) provided assistance to thrifts and their customers affected by Hurricane Katrina.

### **Banking/Insurance Sector**

- Banking supervisors and regulators allowed depository institutions to co-locate so that banks whose branches were destroyed by Katrina can reopen in another bank's branch and begin serving their customers again.
- Temporary facilities, such as mobile trailers, were moved into the area for use by banks.

### **U.S. Savings Bonds**

- Treasury and the Bureau of Public Debt (BPD) provided guidance on cashing savings United States Savings Bonds within the minimum 12-month holding period and expediting the replacement of bonds for those affected by Hurricane Katrina.

### **Financial Education**

- Treasury's Office of Financial Education provided financial counseling and information to those in need, including in the disaster areas, shelters, and the Washington, D.C. armory. They also issued a brochure, "Weathering the Storm: Financial Tips and Resources for Hurricane Recovery," which was distributed to shelters and resource centers through government agencies and private sector organizations, and is available on Financial Literacy and Education Commission and Treasury Department websites in English and Spanish.